



## ANNUAL USE OF CAPITAL SURVEY - 2009

## NAME OF INSTITUTION

(Include Holding Company Where Applicable)

KS Bancorp, Inc. and Wholly owned Subsidiary, KS Bank, Inc.

Person to be contacted regarding this report:	Earl W. Worley, Jr. Chief Operating Officer
CPP Funds Received:	\$4,000,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	8/21/2009
Date Repaid <sup>1</sup> :	

RSSD: (For Bank Holding Companies)	2155276
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	29771
City:	Smithfield
State:	North Carolina

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

*American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.*

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/> Increase lending or reduce lending less than otherwise would have occurred.	The Bank's loan portfolio decreased during 2009 primarily as a result of the residential construction portfolio. The reduction was designed and implemented by management to reduce the inherent risk and exposure of these types of loans in the current economic environment.
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<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	While the Bank's loan portfolio has decreased in total, the bank is still lending to qualified borrowers. The Bank originates residential mortgage loans, commercial and small business loans, as well as consumer loans including home equity lines of credit.
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	The Bank's Securities portfolio increased \$32.6 Million during 2009. Primarily as a result of implementing a leverage strategy to offset the 5% preferred stock dividend required by the CPP. The investment in securities consists primarily of mortgage backed securities and municipal bonds.
<input type="checkbox"/>	Make other investments	
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	The Bank's provision for loan losses totaled \$2.2million for 2009, an increase of \$822,000 over 2008's provision of \$1.4 million. The Bank's allowance for loan losses totaled \$3.9million or 1.70% of gross loans at 12/31/09 compared to \$3.7million or 1.51% of gross loans at 12/31/08

<input type="checkbox"/>	Reduce borrowings	
<input checked="" type="checkbox"/>	Increase charge-offs	During 2009, the bank had net charge-offs of \$2.0 million as compared to \$345,000 during 2008.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/>	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP funds?

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

By taking the CPP funding, the Bank has been able to maintain its "well capitalized" status according to regulatory standards. At 12/31/2009, the bank's Tier I leverage ratio was 8.74%, the Tier 1 risk-based capital ratio was 12.88% and total risk-based capital ratio was 14.14%. The infusion of CPP funds will allow the Bank to continue to loan to qualified borrowers and be positioned for future growth as the economy recovers.

In addition, the bank has been able to create a mortgage loan stimulus program to assist in the sale of homes owned by KS Bank's residential construction builders and OREO properties. By providing the incentive program, the Bank's objective is to stimulate the selling of existing builder inventories and OREO to better utilize the Bank's assets. The program is a residential mortgage loan, fixed rate of 4.90%, 30 years, up to 90% LTV without private mortgage insurance (PMI), closing cost paid by the bank, for qualified buyers. During 2009, the bank closed \$1.4 million in loans under this program.

Management has recently developed and implemented an OREO lot program to encourage qualified residential builders to build on improved lots currently held in OREO by the Bank. The Bank will subordinate the lot to the builder and offer a preferred rate as an incentive for builders to participate in the program. The end goal for the Bank will be the sale of OREO lots that have proven to be very difficult to move in the current economic market.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

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According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.